GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:714
ANSWERED ON:28.07.2006
LENDING OF SHARES
Singh Shri Kirti Vardhan

Will the Minister of FINANCE be pleased to state:

(a) whether Securities and Exchange Board of India has a proposal to allow lending of shares without owning them as reported in the Times of India, dated July 8, 2006;

(b) if so, the details thereof and the reasons for the same;

(c) the impact of this move on the stock market; and

(d) the benefits and defects likely to accrue therefrom?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): The Securities and Exchange Board of India (SEBI) has a proposal is to put in place a regulatory framework for short selling by instituional investors in cash market to provide a level playing field amongst retail and institutional investors and a full-fledged securities lending and borrowing (SLB) scheme to enable all classes of investors to lend and borrow securities with adequate safeguards and disclosures.

(c)&(d): Short selling is expected to enhance the liquidity in the market and ensure fair valuation for securities in a rising market Further, it is also believed to bridge the arbitrage between the cash and the derivatives market A full-fledged and active securities lending and borrowing scheme is considered necessary to ensure a vibrant market for lending and borrowing of securities and also to enable all classes of investors who have sold short to borrow securities and fulfill their settlement obligations.